

OEA Retirement Systems Update

Report to the OEA Board of Directors: September 2009

Please distribute to other OEA members

Retirement Systems Present Plans to ORSC

On Wednesday, September 9, 2009, the executive directors of each of Ohio's five public retirement systems presented proposed changes to pension benefits to the Ohio Retirement Study Council (ORSC). ORSC is a body that reviews pension related policy and makes recommendations to the legislature. The recommended changes are a result of a request by ORSC for the systems to provide board-approved plans for improving the funding status of the retirement systems.

It is important to note that changes proposed to pension benefits or contribution levels require a change in state law. No legislation has been introduced. A bill is expected to be introduced this fall. It remains to be seen what changes such a bill will contain. OEA will continue to work with stakeholder groups, the retirement systems and legislators to pursue equitable, consensus-based solutions. We will continue to keep members updated and provide opportunities to impact the process.

Below is a brief summary of the changes recommended by STRS, SERS and OPERS. The presentations made by each of the retirement systems are available on the ORSC website at <http://orsc.org/reports.cfm>

STRS: On Tuesday, September 1, 2009, the STRS Board voted unanimously to recommend the following changes:

- Increase employee and employer contributions by 2.5% of pay. Beginning in 2011, employee contributions would increase by .5% each year for five years. Beginning in 2016, employer contributions would increase .5% each year for five years. When fully phased in, employees would contribute 12.5% and employers would contribute 16.5%.
- Beginning in 2015, base final average salary on the five highest years of earnings (currently three highest years).
- Beginning in 2015, members may retire with unreduced benefits with: 1) 35 years of service; 2) age 60 with 30 years of service; or 3) age 65 with 5 years of service. Members would be eligible for early retirement, with an actuarially reduced benefit, at age 55 with 30 years or age 60 with 5 years.
- Beginning in 2015, the benefit calculation would be changed to 2.2% for the first 30 years and 2.5% per year thereafter. This would eliminate the 35-year benefit enhancement.

- Members who are eligible to retire in 2015 under current rules and elect to keep working would receive no less than the benefit calculated under the current formula.
- Beginning in 2011, current retirees would receive a 2% annual cost of living allowance (COLA). Those who retire after that point would receive a 1.5% COLA.

SERS: In response to the ORSC request, the SERS Board noted that, according to the last actuarial valuation, SERS currently meets the 30-year funding threshold in statute. However, the last valuation is based on assets and other data from over a year ago. The updated actuarial valuation is expected in November. At that time, most if not all of the current allocation to health care may need to be moved toward funding the pension plan in order to achieve 30-year funding.

The SERS Board voted to recommend changes to the age and service levels for retirement eligibility. The Board also will periodically review the funding status of the plan and make recommendations for future changes to employee and employer contributions or COLA in addition to changes to retiree health care benefits.

The following board-approved changes recommended in age and service would take place in 2015:

- Retirement eligibility with full benefits at age 67 with 10 years of service or age 57 with 30 years of service;
- A member may retire early at age 62 with 10 years of service or age 60 with 25 years of service. However, early retirements are subject to an actuarial reduction from the lesser of age 67 or possible attainment of 30 years of service.

OPERS: Included in the OPERS report are suggested changes in purchase of service credit, minimum earnable salary and disability benefits. Additionally, the Board indicated support for changes to retirement eligibility, COLA, final average salary and the calculation of benefits. These proposals (outlined below) were included in the report to ORSC; however, the OPERS Board has yet to take a formal vote to recommend them.

- Minimum retirement age of 55 with 32 years of service or age 67 with 5 years of service.
- Early retirement at age 62 with five years of service or age 57 with 25 years of service (subject to actuarial reduction).
- Benefit formula of 2.2% of final average salary for each of the first 35 years and 2.5% for each year thereafter.
- Calculation of final average salary based on the five highest years of pay.
- COLA based on the annual consumer price index (CPI) not to exceed 3% per year.

OEA's View: Changes to pension benefits can have a life-altering effect on public employees. Changes of this magnitude should not be considered in a rush. The timeline laid out by ORSC did not allow sufficient time for retirement boards to reach consensus-based solutions with stakeholders. OEA believes that employees, employers and retirees have a shared responsibility

for improving system funding. Changing retirement eligibility rules on those who are in the latter stages of their career is not acceptable. OEA believes employees can be afforded adequate time to plan without compromising system funding.

None of this is to imply a problem does not exist. The severe economic downturn has hit all of the retirement systems hard. As part of our due diligence, OEA engaged an independent actuarial firm to review the financial status of STRS, review proposed changes and make recommendations. This review indicated that the funding problem confronting STRS is real and severe. Prudent changes will need to be made in order to improve system funding and the security of benefits promised to current and future retirees.

Call to Action: STRS Board

OEA does not support the plan approved by the STRS Board. OEA believes that some of the proposed changes go too far and the plan as a whole places a disproportionate burden on active teachers. Under the plan, employees would pay more than the normal cost of a year of service (contributing 12.5% compared to a normal cost of 11.79%)—in essence paying for their entire benefit. Changes in retirement eligibility could be phased in over a longer period of time. Additionally, a tiered COLA benefit causes material equity issues and will lead to a “rush to the door.”

Although OEA has been part of the ongoing discussions with the STRS Board and staff through the Healthcare and Pension Advocates (a coalition which collectively represent all 400,000 stakeholders of the system), individual Board members have indicated that they are swayed by communications from individual members. Please let them know your views. Those Board members endorsed for election by the OEA are marked with an asterisk (*).

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In the near future we expect to call on members for grassroots efforts with the legislators.